

## **HERSETH SANDLIN URGES STRONG ACTION TO COUNTER CHINA'S CURRENCY MANIPULATION**

**March 4, 2010, Washington, DC**-Today, Rep. Herseth Sandlin joined a bipartisan coalition of her colleagues in signing on to a letter to Treasury Secretary Tim Geithner and Commerce Secretary Gary Locke urging them to take immediate action to address China's ongoing currency manipulation that hurts American manufacturers and other small businesses. A full text of the letter is below.

"China's manipulation of its currency has continued for far too long and puts our small businesses at a disadvantage, making it difficult for them to compete and keep hard-working Americans on their payroll. As our economy continues to recover, it's critical that we crackdown on unfair trade practices that harm American businesses," Rep. Herseth Sandlin said."

China pegs its currency, the renminbi (RMB, also known as the yuan), to the U.S. dollar at a fixed exchange rate. Economists estimate that this exchange rate undervalues the RMB anywhere between 15% and 40%. This currency manipulation is the equivalent of a subsidy to China's exports and a tariff to foreign imports into that country, and it presents a trade barrier to many U.S. manufacturers. It is also a contributing factor to the U.S.-China trade deficit. Moreover, many economists argue it threatens the overall stability of the global financial system.

The letter urges the Department of Commerce to apply the U.S. countervailing duty law in defense of American companies who have suffered as a result of the currency manipulation. It also urges the Department of Treasury to include China in its bi-annual agency report on currency manipulation.

Leading the letter are Rep. Mike Michaud (D-ME) and Rep. Tim Ryan (D-OH). While other Representatives continue to add their names, current signers include Reps. L. Davis (D-TN), M. Turner (R-OH), W. Jones (R-NC), Hare (D-IL), Sutton (D-OH), Kaptur (D-OH), Lipinski (D-IL), Manzullo (R-IL), Kagen (D-WI), Kilroy (D-OH), Platts (R-PA), Holden (D-PA), Schauer (D-MI), C. Wilson (D-OH), DeLauro (D-CT), Pascrell (D-NJ), Slaughter (D-NY), Schakowsky (D-IL), D. Burton (R-IN), Kissell (D-NC), T. Murphy (R-PA), D. Hunter (R-CA).

The Honorable Timothy Geithner  
Secretary  
U.S. Department of Treasury  
1500 Pennsylvania Ave., NW  
Washington, D.C. 20220

The Honorable Gary Locke  
Secretary  
U.S. Department of Commerce  
1401 Constitution Ave., NW  
Washington, D.C. 20230

Dear Secretary Geithner and Secretary Locke:

We write to express our serious concerns about China's continued manipulation of its currency. By pegging the renminbi (RMB) to the U.S. dollar at a fixed exchange rate, China unfairly subsidizes its exports and disadvantages foreign imports. As we work to promote a robust U.S. economic recovery, it is imperative that we address this paramount trade issue with all available resources. We urge your agencies to respond to China's currency manipulation with the actions

outlined in this letter. Doing so will allow American companies and workers to compete fairly against their Chinese counterparts and will boost U.S. economic recovery and growth.

The impact of China's currency manipulation on the U.S. economy cannot be overstated. Maintaining its currency at a devalued exchange rate provides a subsidy to Chinese companies and unfairly disadvantages foreign competitors. U.S. exports to the country cannot compete with the low-priced Chinese equivalents, and domestic American producers are similarly disadvantaged in the face of subsidized Chinese imports. The devaluation of the RMB also exacerbates the already severe U.S-China trade deficit. Statistics show that between January 2000 and May 2009, China's share of the U.S. trade deficit for non-oil goods grew from 26% to 83% -- an untenable pattern for American manufacturers. And finally, China's exchange-rate misalignment threatens the stability of the global financial system by contributing to rampant Chinese inflation and accumulation of foreign reserves. For these compelling reasons, we ask your agencies to pursue the course of action below.

First, we urge the Department of Commerce to apply the U.S. countervailing duty law in defense of American companies who have suffered as a result of the currency manipulation. The U.S. is permitted to respond to subsidized imports where the elements of a subsidy are met under the countervailing duty law. The countervailing duty law outlines a three-part test to identify the presence of a countervailable subsidy: 1) that it involves a financial contribution from the government; 2) that it confers a benefit; and 3) that is specific to an industry or a group of industries. China's exchange rate misalignment meets all three parts of this test and therefore merits the WTO-permitted application of countervailing duties.

Second, we ask the Department of Treasury to include China in its bi-annual agency report on currency manipulation. Since 1994 Treasury has not identified China as a country that manipulates its currency under the terms of the Omnibus Trade and Competitiveness Act of 1988 ("Trade Act of 1988"), but Secretary's Geithner testimony to the Senate acknowledging that fact surely justifies the inclusion of China in the report. After labeling the country as a currency manipulator, Treasury should enter into negotiations with China regarding its foreign exchange regime. These combined actions will signal the government's willingness to take decisive action against China's currency manipulation, including the potential filing of a formal complaint with the World Trade Organization.

The recommendations identified above must be done in concert with intense diplomatic efforts, not only with China but also with the IMF and multi-laterally with other countries. Through a combined strategy of legal action and international pressure, it is possible China will revisit its undervaluation of the RMB. If these efforts are not successful, we ask the Administration to consider all the tools at its disposal, including the application of a tariff on Chinese imports, to respond to China's currency manipulation. The economic impact of the RMB undervaluation on American businesses and workers is too great for the Administration not to pursue a comprehensive effort.

This economic downturn has underscored the pressing need to promote policies that protect U.S. jobs and U.S. businesses. Addressing China's manipulation of its currency must be a critical part of our strategy to rebuild our economy and establish safeguards against future

financial crises. The Administration has the legal ability and resources to protect American businesses in the face of China's RMB devaluation, and we urge you to exercise this authority expeditiously.

Thank you for your consideration of this letter. We look forward to your response.